Headquarters U.S. Air Force

Integrity - Service - Excellence

Family Housing Master Plan

Project Identification & Early Development

Maj Marc Barrett
HQ USAF/ILEHD
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Overview

- **Housing Program Overview**
- **New Privatization Identification Process**
- **New Housing Requirements Process**

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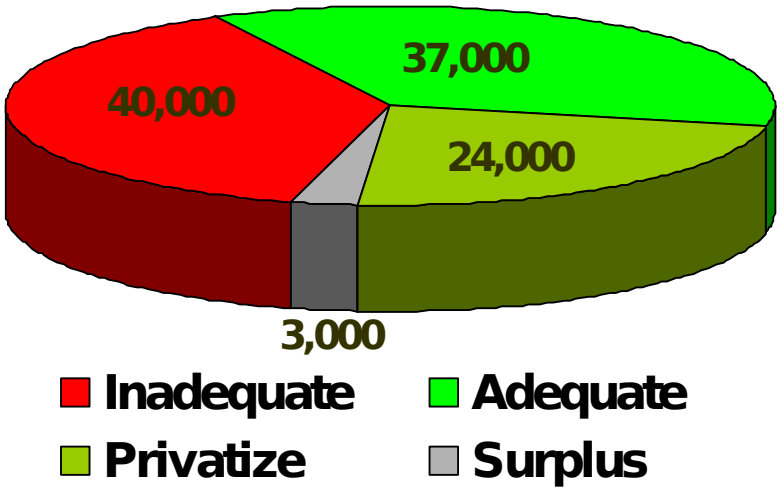
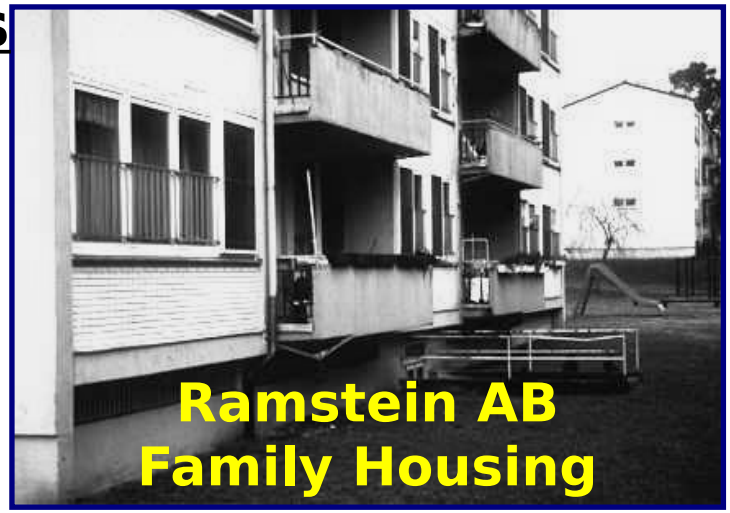
Military Family Housing
Where We're Going

Beginning FY04: 104,000 Units





- Average age of housing is 32 years
- Family Housing Master Plan roadmap to fix inadequate housing
  - Provides requirements based investment strategy
- Funded to eliminate inadequate houses by 2010
- **Accelerating revitalization to comply with DPG**

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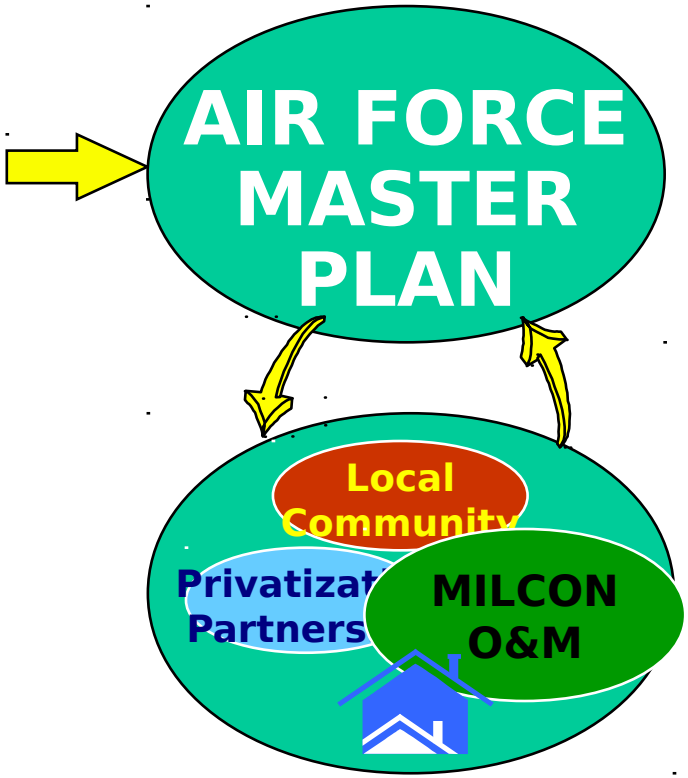
Family Housing Master Plan

Installation Plans Approved by MAJCOM/CCs



Investment Roadmap

MILCON
Privatization
and
O&M
by
Installation

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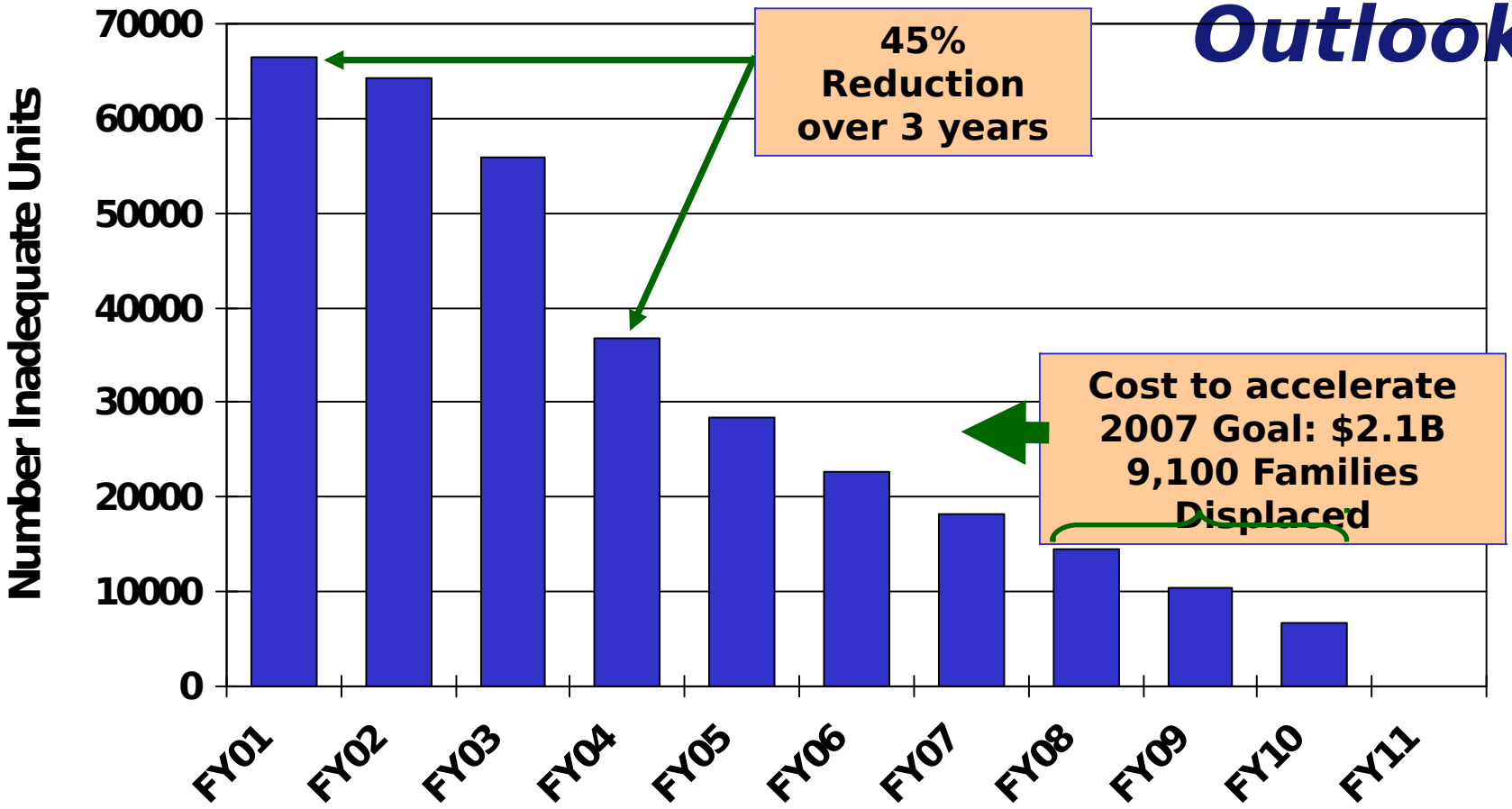
Inadequate Housing Reduction

Projected Construction Outlook



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New Privatization Identification Process

- **Background**
  - **Privatization Revisit**
  - **More Privatization Possible**

- **Process Changes**
  - **Replace Privatization Predictive Model**
  - **Managing Economic Criteria**
  - **Application of Severability Criterion**

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Privatization Revisit

- OSD identified AF as only Service not meeting DPG goal
  - Other Services relying more heavily on privatization
- CSAF directed MAJCOM/CCs to ensure privatization criteria strictly followed in 2002 FHMP update
- 2002 AF FHMP identifies 8 new projects in FY04/05
  - Privatizes nearly 7,800 adequate and inadequate units with MILCON construction costs valued at $504M
  - Potential total scored cost is $100M

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Privatization Revisit
Additional Privatization

- **Additional privatization investigated**
  - **3 candidate projects identified since 2002 FHMP coordinated with MAJCOMs**
  - **Potential to privatize over 5,000 adequate and inadequate units with MILCON costs of $642M**
  - **Potential total scored cost is $88M**
  - **$554M program savings over FY05-10**

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More Privatization Possible

- Need to reduce total MILCON bill by $2.1B to meet 2007 target without impacting AF POM
  - $554M identified with three newly identified projects
    - Only $255M of these savings are in FY05-07 program years
- Privatization predictive model eliminating potentially viable privatization candidates
- Severability criteria hindering identification of new candidate privatization projects
  - Severability policy not a practical approach to managing housing assets
  - Recommending revised policy to CSAF

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New Privatization Identification Process

- **Background**
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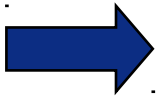

- **Process Changes**
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Privatization Predictive Model

- **Evaluates severable MFH against privatization criteria**
  - **Leverage > 3:1 – statistical analysis; 95% confidence level**
  - **Life cycle cost – 'Engineering Economics' calculation**
- **Conservative estimate of OMB "scored" costs**
  - **In all probability, actual scored costs will be less**

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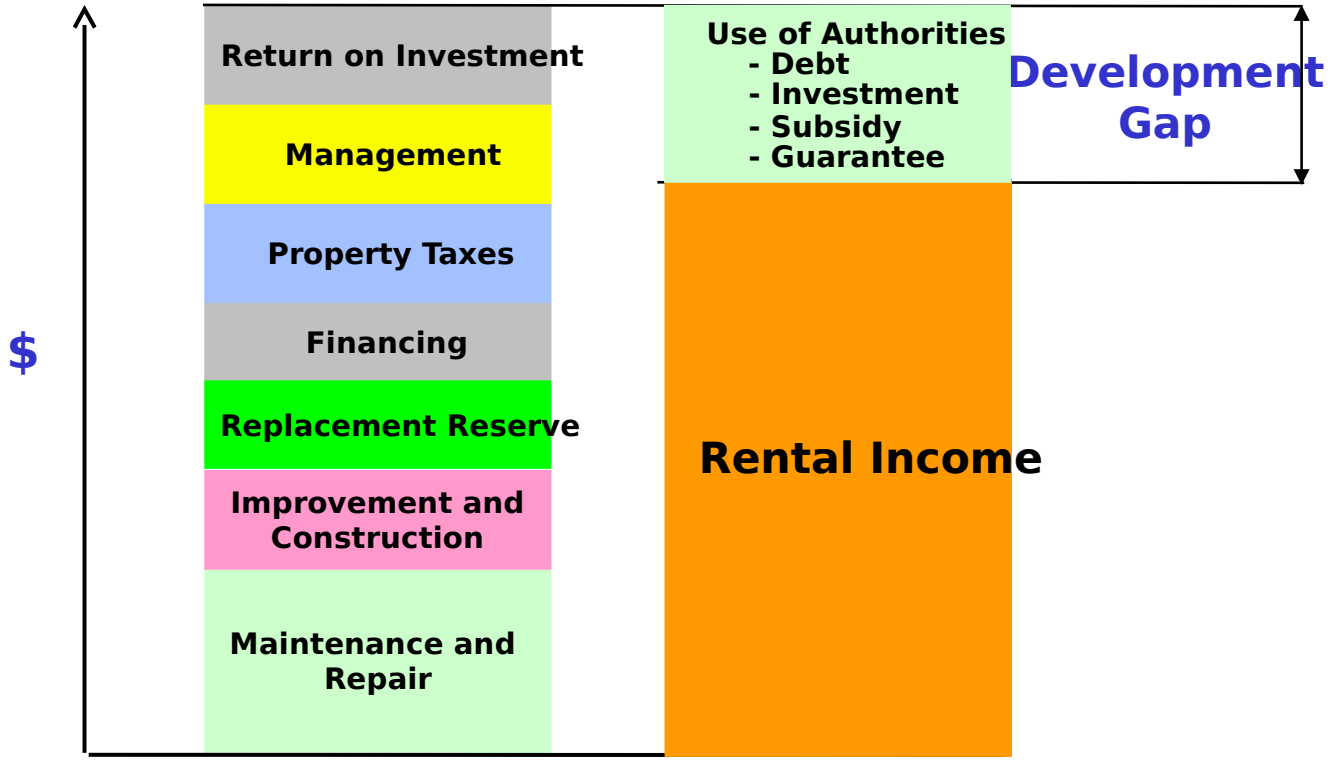
Scored Cost Analysis

- **Model predicts OMB "scored" costs which is an estimate of Government outlay to cover the development gap and risk to government**



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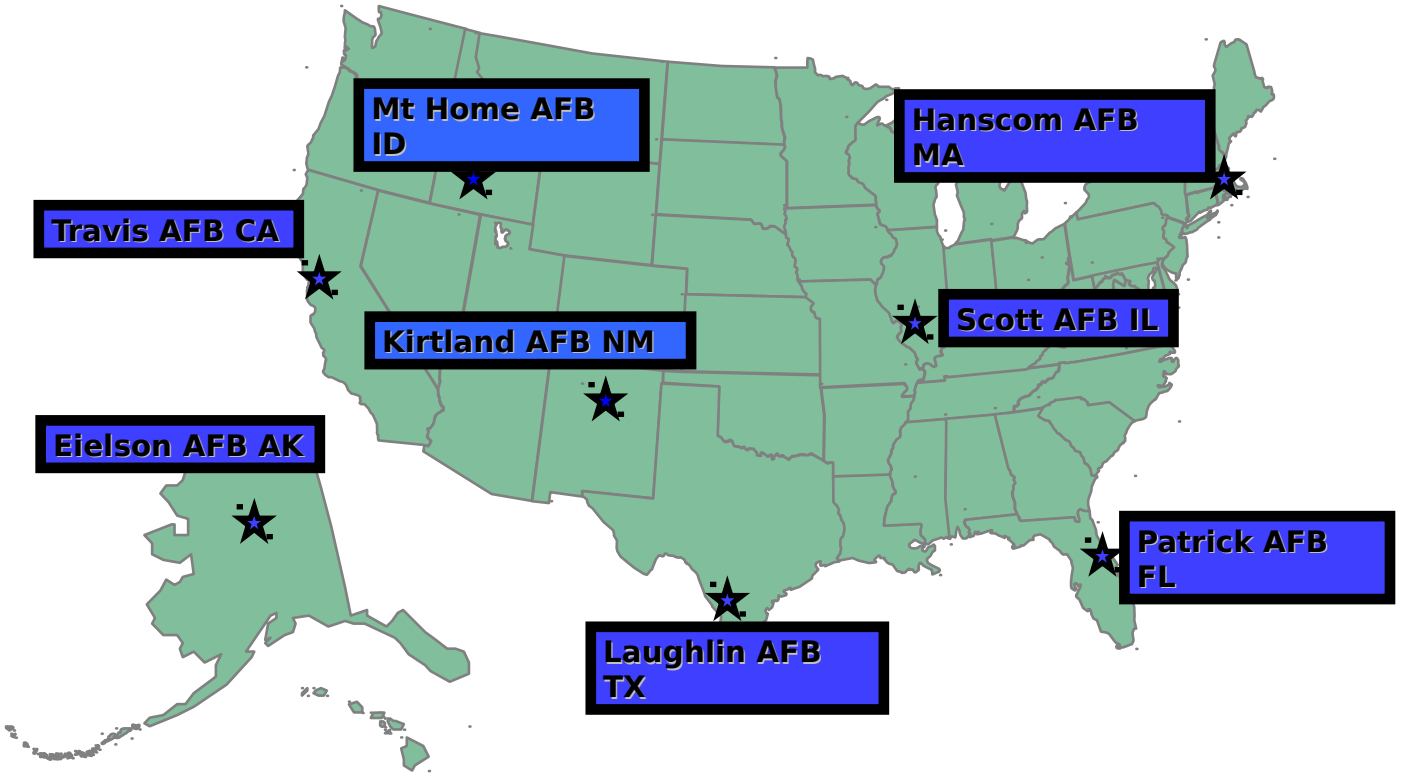
PPM Developed in 1998

- **Model based on multi-regression analysis of privatization studies at eight representative AF installations and readily available social, economic, and military data**



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Predictive Model Factors

Potential Rental Income	BAH income stream
Required Investment	Cost to revitalize or construct units
Sufficiency of Inventory	Housing Supply and total family requirement (deficit/surplus)
	Base & county payroll
Regional Economic Dependency	Population growth, employment growth, projected per capita retail sales
Regional Economic Vitality	Number of units in project
	Median family income
Size of MFH inventory	
Affordability	

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Life Cycle Analysis

- **Life-Cycle Cost of continued Government ownership and operations is net present value of**
  - **MILCON**
  - **Management**
  - **Utilities**
  - **Services**
  - **Leases (if part of privatization)**
  - **Maintenance and repair**
- **Life-Cycle Cost of Privatization is net present value of**
  - **OMB “scored” costs for use of authorities**
  - **BAH payments due to occupants of privatized housing**
  - **Management**

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Scored Costs Differ from Prediction

- FHMP contractor evaluated PPM; compared to recent pro forma analyses
- Assumptions used in PPM are more conservative than those applied in proforma analyses
- Scored costs prove to be estimated higher with PPM

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PPM Review Results

BASE	PPM SCORED COST	PROFORMA SCORED COST
Dover	$130.3M	$57.5M
Eglin/Hurlburt	$118.5M	$18.2M
Fairchild	$47.4M	$33.8M
McChord	0	0
Scott*	0	$4.8M
Travis	$209.3M	$18.8M
Vandenberg	$14.7M	$8.1M

* Scott AFB proforma analysis includes units revitalized but not conveyed; PPM cannot do that analysis

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Comparison of Underlying Assumptions

Assumption	PPM Value (1998)	Proforma Values (2002)	Effect on Scored Cost
Insurance risk loss	40.64%	17.00%	Lower Scored Cost
Insurance recovery rate	46.66%	54.48%	Lower Scored Cost
Inflation rate	2.7%	3.0%	Lower Scored Cost
Vacancy rate	2 – 5%	2%	Lower Scored Cost
Construction loan rate	9.0%	7.4%	Lower Scored Cost
Permanent loan rate	8.0%	7.4%	Lower Scored Cost
Developer Equity	10% of total development cost	5% of total development cost	Lower Scored Cost
Internal rate of return	17%	15%	Lower Scored Cost
Rent to developer	Lesser of BAH	BAH (regardless	Lower Scored

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Process Changes
Replace Privatization Predictive Model

- **Screening tool to quickly identify viable privatization candidates--done in conjunction with IFHMP update**
  - **Statistical analysis (not an economic analysis)**
  - **Overly conservative estimating tool**
- **Next privatization identification effort to be based on detailed pro forma analysis**
  - **Analyzing every base with a MILCON requirement**
  - **Parallel effort with 2003 IFHMP updates**
- **Effort started late Oct 02**
  - **Based on 2003 FHMP Table Top Update data inputs**
  - **MAJCOMs/bases will review & validate results**

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Process Changes
Managing Economic Criteria

- **GAO audit results of DoD Privatization Program:**
  - **3:1 leverage is a general criterion**
  - **3:1 leverage desired for overall program results**
- **ILEH will recommend privatization for projects within approximately 10% of the leverage criterion (~ 2.7:1)**
- **Will consider realistic alternatives if project appears to be too "cash rich", such as:**
  - **Bundling "cash rich" projects with "cash poor" projects**
  - **Charging developers fair market land lease costs**
  - **Including desired community enhancements in project**
  - **etc.**

Privatization is an opportunity--let's not miss it!

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Process Changes
Application of Severability Criterion

- **Low probability for drastic reduction of requirements at most bases—need for severability is minimal**
  - **Privatization proposals can be written to limit or prohibit non-military families from living in selected housing**
  - **Non-military "water fall" tenants can be limited to specified housing areas**
  - **Inadequate non-severable housing may be replaced at a more accessible location—opens up options**
- **Including non-severable housing improves financial aspects of the project**
- **Privatizing all housing on a base vice only a portion lessens the management and O&M burden to the base**

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New Housing Requirements Methodology

- **New OSD housing requirements methodology may impact total AF requirements**
  - **Degree of impact unknown until analysis performed at each installation**
- **New process estimates the ability of local communities to absorb additional families**
  - **Per agreement with OSD, AF will no longer rely on "customer demand" criterion**
- **OSD looking for new methodology in future projects**
  - **However, they do not want the revised methodology to be a "deal breaker"**

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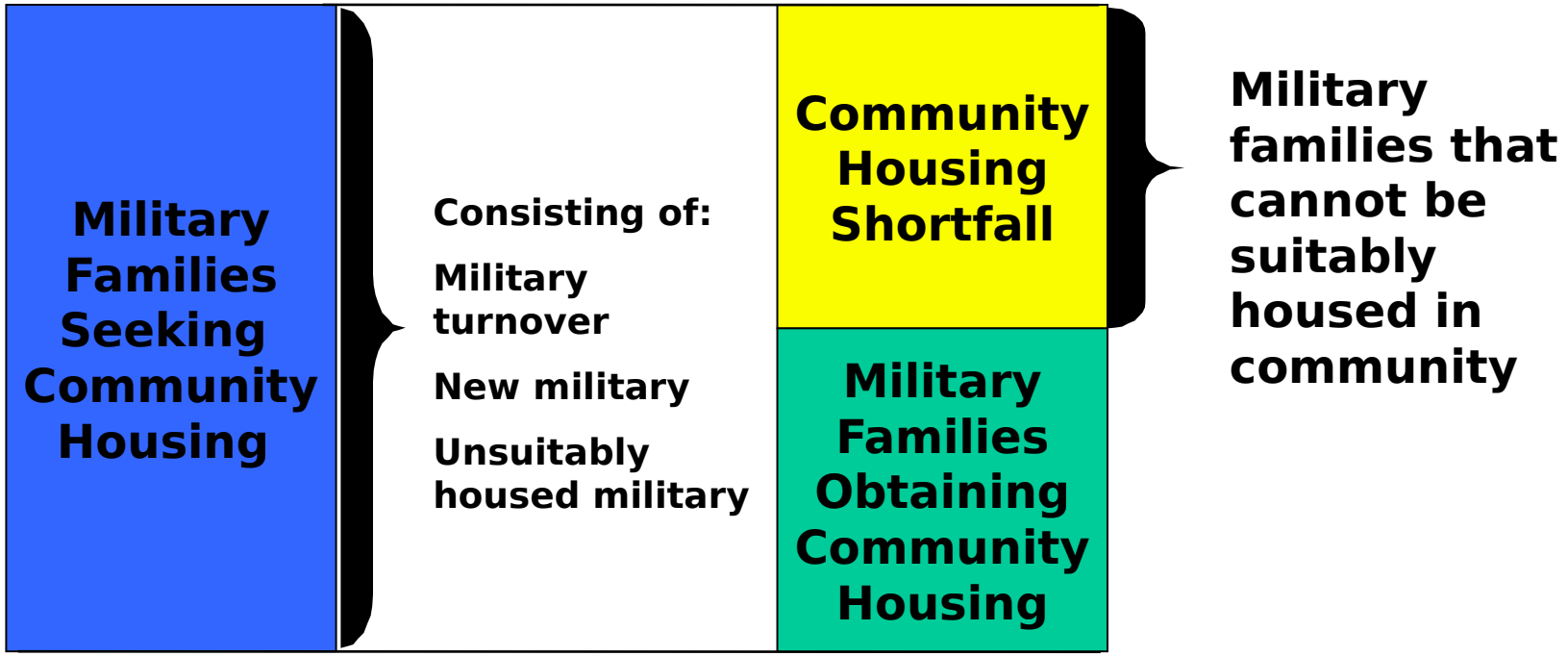
New Housing Requirements Process



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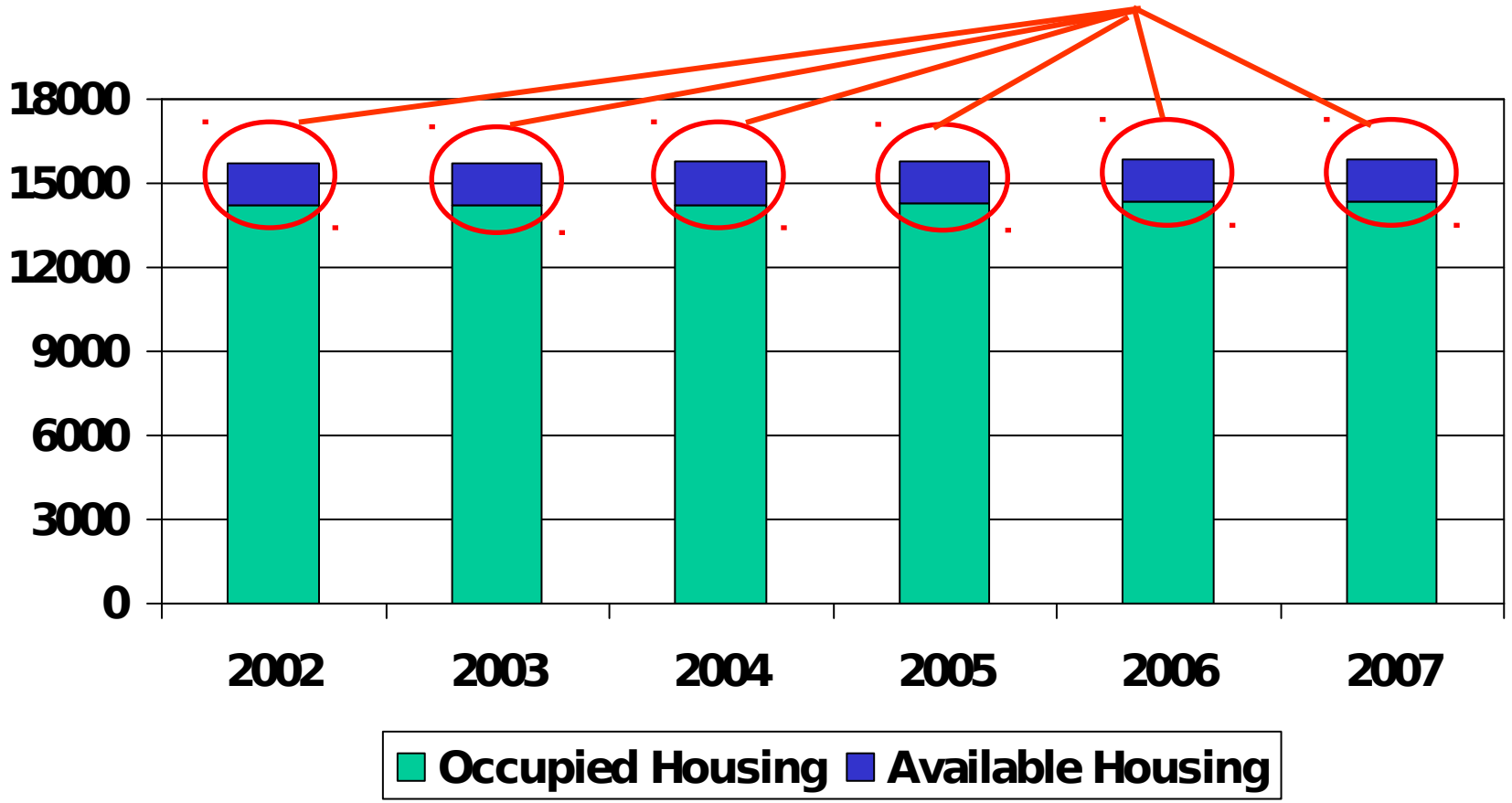
Dynamic Response Model Estimates Community Absorption Rate

- Model assumes proportional share of community housing coming available each year



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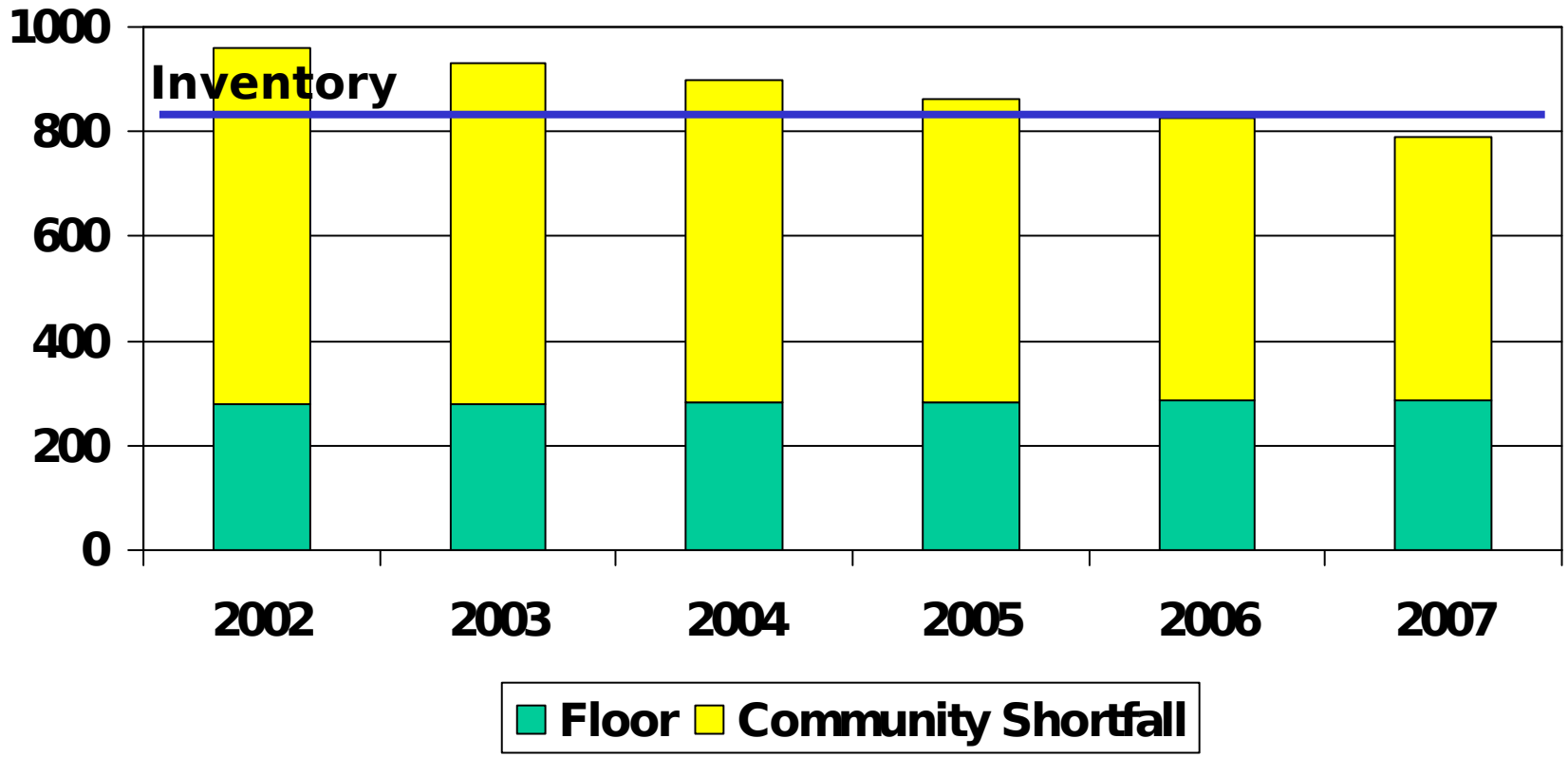
Dynamic Response Model Annual Military Housing Requirement

- Installation successfully competes for a greater share of community housing with each year



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New Housing Requirements Methodology

- Beta test of new methodology performed at 3 bases

Base	MFH REQUIREMENTS 2002 FHMP*	New HRMA	% Change
Beale	1,416	1,344	5
Vandenberg	1,306	1,241	5
Hill	1,140	685	40

* Preliminary results under review by Bases/MAJCOMs

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New Housing Requirements Methodology

- AF is incorporating new methodology in all future market analyses started since Jun 02
- Valid requirements key to addressing effect of OSD directed 2007 goal
  - 21 critical bases - potential impact to 9,100 families to accelerate revitalization to 2007
    - 4 HRMA updates in Fall 02
    - 10 HRMA updates in Summer
    - 7 HRMA updates in Summer
  - 25 non-critical bases - minimal impact to families if revitalization accelerated to 2007
    - 7 HRMA updates in Fall 02
    - 8 HRMA updates in Summer 03
    - 10 HRMA updates in Summer 04

Move up HRMAs to assess impact of accelerating FY08-10 projects

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Summary

- **Significant change in direction to AF housing program--moving to comply with DPG 2007 buyout**
- **Changing privatization identification process to take advantage of opportunities & save money**
- **New OSD housing requirements methodology may impact total AF requirements—incorporating into, but not breaking, privatization projects**